

EXHIBIT 21



Tax Notes Today

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IRS Budget Cuts 'Will Be Visible' in 2015, Koskinen Warns

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Summary by **taxanalysts**

In anticipation of Congress's fifth straight year of budget cuts for the IRS, the agency is undergoing "almost a zero-based budgeting" review of its programs and responsibilities to determine what it must do, what it can do less of, and what it can stop doing, IRS Commissioner John Koskinen said December 11.

Full Text Published by **taxanalysts**

In anticipation of Congress's fifth straight year of budget cuts for the IRS, the agency is undergoing "almost a zero-based budgeting" review of its programs and responsibilities to determine what it must do, what it can do less of, and what it can stop doing, IRS Commissioner John Koskinen said December 11.

Speaking in Washington at the annual Institute on Current Issues in International Taxation, cosponsored by George Washington University Law School and the IRS, Koskinen repeated his recent mantra to Congress that "you get what you pay for, [but] you don't get what you don't pay for," adding, "I guarantee you, it will be visible [in 2015], the impact of these cuts."

At press time, the House was considering a fiscal 2015 omnibus spending bill that would fund the IRS at \$10.95 billion -- a cut to the approximately \$11.3 billion budget the agency received in fiscal 2014. (Related coverage )

Koskinen explained to reporters after his lunch remarks that he was resigned to the budget cuts. "When you look at what we're going to have to do, it doesn't make the problem any easier to solve, and it doesn't make your work life any better," he said. "The reality is the same, so you might as well seize the initiative. I like challenges, and I think we will get through this. And I

want the employees to have that feeling as well."

But he added, "I am anything but happy with the result. I think it makes no sense at all at this stage to continue to undermine the ability of the agency to function."

120,000 FFIs Under FATCA

Eschewing his usual format for public appearances, Koskinen gave no speech at the event, instead opting to answer questions from the audience for almost 45 minutes. Among the topics he discussed were the Service's preparations to implement the Foreign Account Tax Compliance Act, prospects for international tax reform, and the need for training IRS employees.

The IRS has registered more than 120,000 foreign financial institutions under FATCA, Koskinen said. "We are on track to actually accept [FATCA] information, we're building the platforms to use it, we're dealing with, OK, now what are we going to do with it," he said.

However, the commissioner added, "We have resource constraints as to how that is going to work." The IRS has two working groups meeting with Koskinen every other week on implementation of FATCA and the Affordable Care Act, he said. "We actually look like we're going to pull it off," he said.

Tax Data Boosts Compliance

The IRS does not have compliance measures on the number of U.S. citizens who live outside the United States but are noncompliant on their tax obligations, Koskinen said. While Americans tend to be highly compliant individually, when the IRS has less information and taxpayers know it, compliance drops, he said.

The IRS now collects transaction data on individuals and businesses from credit card companies, the commissioner noted. Among the least compliant taxpayers are small and medium-size businesses, he said. "Once people knew we were getting that [information] . . . tax compliance rates in that area have gone up," he said. "A major part of the tax gap estimated in the U.S. comes from that sector of the economy."


Thanks to its offshore voluntary disclosure programs and FATCA, the IRS is "getting hundreds of thousands more disclosures of offshore accounts . . . just people simply showing up," Koskinen said.

"The more data we have, the more compliance we have, as long as we're doing something with the data," Koskinen said. However, just knowing an individual's or business's gross transaction data won't tell whether the taxpayer owes any taxes, he noted.

"We need to develop models around the data, we need to be able to evaluate where the risks are," he said, adding, "The challenge is going to be whether we have the resources to effectively use the data. If we cannot use the data effectively, the word will get out, and the fact that we know the information won't do us any good in terms of compliance because people will say, 'They don't seem to be doing anything with the data, so maybe I don't have to worry about

it."

International Tax Reform Momentum

Asked about the prospects for a territorial tax system in the United States, Koskinen emphasized that he steered clear of policy, but said, "Clearly, there is momentum afoot to significantly change the way the international taxation system works, starting with FATCA." (Related coverage )


"As that momentum continues, it's going to focus more attention in the United States on our corporate tax system," Koskinen continued. He noted continuing discussion in Congress about corporate tax reform and simplification and said that simplification would make the IRS's job easier.

"I think there will be more focus on [tax reform] internationally, and I think that will therefore drive us to, inevitably in the United States, have to focus on what is the appropriate corporate tax system for companies that have to compete globally," Koskinen said. "And they're going to be dealt with more efficiently, and I would hope . . . more aggressively by tax authorities around the world."


Closing Cases Appropriately

Asked about long and seemingly unnecessary delays in closing tax cases, Koskinen said, "The goal here is the appropriate closure of the case, the appropriate settlement of the case."

He continued, "What we don't want to do is have . . . people where the case gets closed simply to get it closed, and in effect it gets bucked up the chain. If the case can be closed at the exam level, that's where it should be closed. We should never tie up Appeals, counsel, the Tax Court in those issues."

But again, Koskinen said, resource allocation comes into play. For that reason, he said, one of his goals next year will be to restore some of the training budget necessary to make sure his employees can do their jobs. (Prior coverage )

Outsourcing Audit Work

Speaking with Tax Analysts after the session, Koskinen defended the IRS's decision to outsource \$2 million of work on Microsoft's transfer pricing audit to the law firm Quinn Emanuel Urquhart & Sullivan LLP. (Prior coverage )

"As a general matter, we have always hired outside experts when we need them," Koskinen said, adding that there have been no changes in the IRS's overall outsourcing policy.

"One of the things we have to do is show up in Tax Court," the commissioner said. "We can't default the government's position simply because we have . . . 20 percent fewer members of the [Office of] Chief Counsel than we used to have. . . . The one place we can't cut resources is in tax litigation."

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